Long Term Fiscal Planning

Long-term fiscal planning is an effective tool for creating sustainable budgets and providing fiscal stability beyond the annual budget horizon. Long-term financial planning is a strategic process that provides governments with the insights and information needed to establish multi-year budget solutions and fiscal policies and actions that maintain good fiscal health. The County creates a five-year operating forecast for the purpose of providing the Board of Supervisors with a framework for use in decision-making in order to maintain and continue the fiscal health of the County to ensure and enable a plan for the provision of services and capital assets.

The forecast is updated annually and is not a budget. It does not establish policy or priorities, it simply summarizes fiscal capacity. The forecast identifies key factors that affect the County's fiscal outlook and assesses how difficult balancing the budget may be in the future. It helps the County to understand the fiscal challenges ahead and the need to establish priorities.

The forecast is developed using a baseline environment, that is, revenues and expenditures are projected based primarily on trend analysis, specific circumstances and present level of services provided by the County. This forecast is not a prediction of what is certain to happen but rather a projection of what will occur in the absence of any mitigating actions or changing circumstances. As such, this plan highlights significant issues or problems that must be addressed in order to maintain a structurally balanced budget.

Significant Ongoing Issues Impacting the General Fund

Retirement costs are anticipated to increase due to market losses incurred by the County's pension system.

Costs relating to memoranda of understanding with employee groups are projected to increase. The increase in the forecast reflects only current negotiated agreements between the County and employee representation units, and includes costs for budgeted positions.

Due to less property tax revenue to be received by County Fire and rising pension costs, an increase in General Fund subsidy is required to maintain needed fire services and replace fire vehicles.

Additional staffing for the Adelanto Detention Center Expansion will require a significant amount of funding beginning in Fiscal Year 2013-14.

Table 1 summarizes the County's Five-Year Fiscal Forecast as it relates to ongoing expenditures funded with ongoing discretionary revenue in the County's General Fund. The Five-Year Fiscal Forecast represents future incremental costs and changes in revenues for the referenced fiscal year. The forecast reflects that revenues are beginning to increase due to projected increases in assessed valuation and Proposition 172 sales tax revenue. However, cost increases continue to cause structural issues that need to be addressed.

TABLE 1
FIVE-YEAR FISCAL FORECAST
FISCAL YEARS 2013-14 THROUGH 2017-18
(dollars in millions)

	2013-14	2014-15	2015-16	2016-17	2017-18
Ongoing Carryover From Fiscal Year 2012-13	$ 9.4				
Assessed Valuation Change	1.5%	2.0%	2.0%	2.0%	2.0%
Ongoing Revenue Change:					
Property Tax	$ 8.8	$ 8.2	$ 8.1	$ 8.3	$ 8.4
Proposition 172	11.1	6.3	6.0	6.9	7.0
Other Revenue	(2.1)	0.2	1.4	1.3	1.4
Total Ongoing Revenue Change	$ 17.8	$ 14.7	$ 15.5	$ 16.5	$ 16.8
Change in Ongoing Costs:					
Retirement	$ (11.3)	$ (11.7)	$ (7.9)	$ (7.8)	$ (5.9)
Other MOU Costs	(0.9)	(2.3)	(2.5)	(2.3)	(2.6)
County Fire Subsidy Costs	(1.2)	(0.8)	0.0	0.0	0.0
Earned Leave Program	(3.7)	0.0	0.0	0.0	0.0
Other Costs	(10.1)	(5.5)	(4.3)	(5.9)	(4.9)
Total Change in Ongoing Costs	$ (27.2)	$ (20.3)	$ (14.7)	$ (16.0)	$ (13.4)
Yearly Ongoing Available/(Budget Gap)	$ -	$ (5.6)	$ 0.8	$ 0.5	$ 3.4

Table 2 shows the recommended solutions for the structural deficit identified in the Five-Year Fiscal Forecast above. The Five-Year Forecast solutions represent incremental mitigations for the referenced fiscal year.

TABLE 2
FIVE-YEAR FORECAST SOLUTIONS
REMAINING STRUCTURAL DEFICIT
FISCAL YEARS 2013-14 TO 2017-18
($ in millions)

	2013-14	2014-15	2015-16	2016-17	2017-18
From Five Year Financial Forecast Table 1:					
Yearly Ongoing Available/(Budget Gap)	**$ -**	**$ (5.6)**	**$ 0.8**	**$ 0.5**	**$ 3.4**
Ongoing Mitigations:					
SBPEA Medical after MOU term	$ 0.0	$ 2.0	$ 2.1	$ 2.3	$ 2.6
Proposed SBPEA Reductions	0.0	9.4	0.0	0.0	0.0
Total Ongoing Mitigations	$ -	$ 11.4	$ 2.1	$ 2.3	$ 2.6
Excess Ongoing Financing Available/ (Mitigations Still Needed)	**$ 0.0**	**$ 5.8**	**$ 2.9**	**$ 2.8**	**$ 6.0**

As reflected in the table above, the recommended solutions for the remaining structural deficit for fiscal years 2013-14 through 2017-18 include:

San Bernardino Public Employees Association ("SBPEA") Medical After Memorandum of Understanding ("MOU") Term – Removal of annual increases in other MOU costs that occur from 2014-15 through 2017-18. This cost represents increased medical-related benefits for the County's largest union that will automatically take effect if not addressed in the next round of negotiations.

Proposed SBPEA Reductions – The County is seeking concessions from the eight bargaining units represented by SBPEA, whose existing contract expires in Fiscal Year 2014-15, in an attempt to reduce salary and benefit costs. These concessions, if achieved, will generate $9.4 million in savings.

As of May 2013, with the exception of the eight bargaining units represented by SBPEA whose MOUs remain effective until June 28, 2014, all bargaining units and unrepresented employees have accepted or, in one instance had imposed, a substantial reduction or elimination of the employer pick-up of employees' contributions to the retirement benefit plan. Continuation of this benefit reduction is contingent upon the acceptance of such concession by the SBPEA Units.

The Five-Year Forecast Solutions resolve the structural deficit identified in the five-year fiscal forecast presented above. However, this forecast does not include the cost of staffing the expansion of the Adelanto Detention Center, which has been deferred until the County has available money or until non-General Fund sources are found to fund these costs. In addition to these costs, the County has identified other ongoing costs that are not included in the five-year forecast due to lack of available funding. These costs are identified in Table 3.

TABLE 3
ONGOING COSTS NOT FUNDED IN ONGOING BUDGET PLAN
FISCAL YEARS 2013-14 TO 2017-18
($ in millions)

	2013-14	2014-15	2015-16	2016-17	2017-18
Five Year Forecast Solutions Table 2:					
Excess Ongoing Funding Available/ (Mitigations Still Needed)	**$ 0.0**	**$ 5.8**	**$ 2.9**	**$ 2.8**	**$ 6.0**
Ongoing Costs not funded in Ongoing Budget Plan:					
Earned Leave Program	$ (0.7)	$ -	$ -	$ -	$ -
Adelanto Detention Center Expansion Staffing	0.0	(17.8)	(14.3)	0.0	0.0
Pavement Management Program	(0.4)	(1.7)	(2.3)	(0.9)	0.2
Annual Ongoing Costs Not Funded in Ongoing Budget Plan	**$ (1.1)**	**$ (19.5)**	**$ (16.6)**	**$ (0.9)**	**$ 0.2**
Total Ongoing Costs not Funded in Ongoing Budget Plan	**$ (1.1)**	**$ (13.7)**	**$ (13.7)**	**$ 1.9**	**$ 6.2**
Cumulative Ongoing Excess/(Deficit)	**$ (1.1)**	**$ (14.8)**	**$ (28.5)**	**$ (26.6)**	**$ (20.4)**

As reflected in the table above, the County has identified other ongoing costs that are not included in the ongoing budget plan. These costs are:

Earned Leave Program Costs – In a given fiscal year an employee can have paid time off earned but not used that is carried forward to future years until taken or cashed out. The County currently has a significant existing liability created by these leave balances from prior years. In prior years, departments were required to fund payments made to employees of these existing leave balances at separation or retirement within their department allocations, which would often require departments to leave budgeted positions vacant for extended periods of time. In Fiscal Year 2011-12, the County allocated ongoing sources of $3.5 million to begin setting aside funding for the portion of these unused leave balances that will eventually be funded by discretionary sources of the general fund. This allocation will be placed in the Earned Leave Reserve until needed. The current balance in the Earned Leave Reserve is $3.5 million. The 2013-14 Recommended Budget includes a contribution of $7.0 million ($3.5 million for 2012-13 and $3.5 million for 2013-14) to the Earned Leave Reserve to increase the funding available for these leave balances from prior years.

The County estimates that the portion of annual cost of employee paid time off earned but not taken funded by discretionary sources of the general fund is approximately $4.4 million. This amount will be added to the existing liability balance each year. Beginning in Fiscal Year 2013-14, $3.7 million of the $4.4 million ongoing cost is included in the ongoing budget plan (Five-Year Fiscal Forecast). The remaining $0.7 million is not funded on an ongoing basis. However, the 2013-14 Recommended Budget includes the funding of the $0.7 million on a one-time basis using one-time funds until an ongoing source becomes available.

The 2013-14 Recommended Budget appropriates this $4.4 million ($3.7 million ongoing and $0.7 million one-time) in the Contingency for Uncertainties, and identifies it for the Earned Leave Program.

Adelanto Detention Center Expansion Staffing – The County currently estimates that the ongoing cost of staffing the expanded Adelanto Detention Center is $37.5 million. The County has deferred funding this cost until the County has available General Fund monies, or until non-General Fund sources to fund it are identified. It is anticipated that the expanded facility will be ready to open in January 2014. The County has developed a plan to staff 222 of the 1,392 additional beds in the expanded facility. This plan provides the staffing for these beds to be funded in 2013-14 with $5.4 million of AB 109 Public Safety Realignment Revenue. This funding is not included in the 2013-14 Recommended Budget, but will be brought to the Board of Supervisors for approval in Fiscal Year 2013-14 as part of the quarterly budget adjustment process. Staffing for the remaining new beds is not currently funded and is reflected in the ongoing costs not funded in the ongoing budget plan.

Pavement Management Program **–** The County estimates that an ongoing contribution to the Transportation Department from the County General Fund will be required to sustain County maintained roads in good to very good condition. This ongoing contribution is estimated to increase each year through Fiscal Year 2016-17, when it reaches a total of $5.3 million, and then declines slightly in Fiscal Year 2017-18. This cost is not funded in the ongoing budget plan. However, the 2013-14 Recommended Budget includes the funding of the Fiscal Year 2013-14 cost of $0.4 million on a one-time basis using one-time funds.

2013-14 RECOMMENDED BUDGET

The 2013-14 Recommended Budget is structurally balanced and mitigates a $9.4 million structural deficit using $9.4 million of ongoing sources not allocated in the prior year, as shown in Table 1 entitled "Five-Year Fiscal Forecast." The tables that follow detail the revenue and expenditure assumptions that are included in the Five-Year Fiscal Forecast for Fiscal Year 2013-14. The tables also address one-time sources and uses for Fiscal Year 2013-14. The ongoing budget information is presented on an incremental basis using the 2012-13 Adopted Budget as the base. The one-time information is presented in actual amounts (rounded). Table 4 reflects changes in discretionary funding sources available for the 2013-14 Recommended Budget.

TABLE 4
CHANGES IN DISCRETIONARY FUNDING AVAILABLE FOR FISCAL YEAR 2013-14
(in millions)

	Ongoing	**One-Time**
Adjusted Ongoing Discretionary Sources:		
Property Tax	$8.8[(1)]	--
Sales Tax	2.3[(2)]	--
Property Transfer Tax	0.9	--
Interest Revenue	(1.2)[(3)]	--
Property Tax Administration Fee	(2.8)[(4)]	--
Other	(1.3)	--
Adjusted Ongoing Proposition 172 Revenue	11.1[(5)]	--
Estimated One-Time Discretionary Sources:		
Use of Reserves	--	$36.3[(6)]
Operating Transfers In	--	10.6
2012-13 Discretionary Results	--	82.3[(7)]
Changes in Available Funding	**$17.8**	**$129.2**

(1) The $8.8 million increase in property tax revenue is based on an assessed valuation increase of 1.5%. The County has not budgeted any additional property tax revenue that might result due to the dissolution of Redevelopment Agencies pursuant to ABX1 26, as this amount is not currently estimable. The County continues to budget for pass-through payments consistent with ABX1 26.

(2) The $2.3 million estimated increase in sales tax revenue is based on estimates of a local economist, and increased revenue trends in Fiscal Year 2012-13.

(3) The $1.2 million decrease in interest revenue is due to decreased interest and penalties from the County's Teeter program, and decreasing interest rates earned on investments.

(4) The $2.8 million decrease in Property Tax Administration Fee (“PTAF”) revenue is due to the impact of the decision in the PTAF Fee litigation, which decreases the amount of this fee that the County can charge cities in the County for the costs related to the assessment, billing, collection and apportionment of property tax revenues.

(5) The County receives Proposition 172 revenue, which is derived from a half-cent sales tax that provides funding for public safety services. The County allocates its Proposition 172 revenues as follows: 70% to the Sheriff/Coroner/Public Administrator, 17.5% to the District Attorney and 12.5% to the Probation Department. The Fiscal Year 2013-14 Proposition 172 increase of $11.1 million includes $5.8 million of current year revenues in excess of the amount included in the 2012-13 Adopted Budget and growth of $5.3 million projected for Fiscal Year 2013-14.

(6) The use of the $22.9 million Future Space Needs Reserve and the use of $13.4 million of the Teeter Reserve are included in the 2013-14 Recommended Budget. This funding will be combined with other one-time sources to fund one-time projects and to set-aside funding in contingencies for one-time capital projects and other one-time expenditures. The amount released from the Teeter Reserve is the amount that this reserve is funded in excess of the legal requirement.

(7) Projected Fiscal Year 2012-13 discretionary General Fund results include:

(a) Appropriation savings of $48.9 million. This is comprised of $34.5 million in unspent contingency appropriations, projected departmental savings of $10.5 million, and savings of $3.9 million in operating transfers to other funds.

(b) Revenue in excess of budgeted amounts of $44.4 million. This is due to increased property tax revenues of $14.4 million, of which $11.5 million is residual property tax increment not required for the current payment obligations of the dissolved redevelopment agencies. Additional revenue changes include a decrease in property tax administration fee revenue of $2.8 million, and other revenues exceeding budget by $5.4 million. One-time distributions from the dissolved Redevelopment Agencies is projected at $16.4 million, and one-time revenue from excess tax sales proceeds is $11.0 million.

(c) An $11.0 million contribution to the reserve for a new property tax system.

As shown in Table 5 below, the County anticipates ongoing cost increases of $27.2 million and $58.0 million in one-time costs and contingency appropriation.

TABLE 5
CHANGES IN COSTS FUNDED WITH DISCRETIONARY REVENUE
FOR FISCAL YEAR 2013-14
(in millions)

	Ongoing	One-Time
Increase in Ongoing Costs		
Retirement Increases	$ 11.3 (1)	--
Other MOU Costs	0.9 (2)	--
County Fire Subsidy Costs	1.2 (3)	--
Earned Leave Program	3.7 (4)	0.7 (4)
Other Costs	10.1 (5)	--
One-Time Costs		--
Department Allocations	--	$9.3 (6)
Operating Transfers Out	--	30.3 (7)
Contingency Appropriation	--	8.5 (8)
Reserve Contributions	--	9.2 (9)
	$ 27.2	**$ 58.0**

(1) Estimated increases in retirement costs caused primarily by market losses incurred by the retirement system.

(2) Approved compensation changes pursuant to negotiated MOU with employee groups of the County.

(3) Increased subsidy to County Fire to maintain needed services. In recent years declining property tax revenues and increasing costs have made it difficult for the fire district to maintain necessary service levels. County Fire has attempted to mitigate the effects of the economic down turn through budget cuts including the transitioning of full-time staffed fire stations to on-call fire stations. However, an additional subsidy is required for 2013-14 to maintain service levels.

(4) Estimated ongoing cost of $4.4 million of employee paid time off earned but not used for the portion of these costs funded by discretionary sources of the general fund. The 2013-14 Recommended Budget appropriates this cost in the Contingency for Uncertainties, and identifies it for the Earned Leave Program. These costs are funded with $3.7 million ongoing and $0.7 million one-time funding.

(5) Other costs include $2.9 million in funding to Human Services for increased costs of foster care and California Children's Services, $2.9 million in funding to Sheriff due to declines in detention revenue, $2.6 million in funding allocations to departments for service enhancements, an additional $1.6 million for insurance and central services costs and $0.1 million for utilities.

(6) Includes $3.0 million in expenditure authority to Economic Development from revenue the department generated in Fiscal Year 2012-13, $2.7 million to the Registrar of Voters for upcoming elections, and $3.3 million to Land Use Services for general plan/development code amendments, new permitting software, code enforcement's medical marijuana costs, legal costs and demolition costs.

(7) Includes $4.5 million to Transportation to help construct the Glen Helen Parkway grade separation, $15.7 million to the Capital Improvement Program to fund construction of the Sheriff's Crime Lab expansion, $4.5 million to the Capital Improvement Program to acquire existing office space near the Victorville Courthouse for the District Attorney and Public Defender who currently lease space, and $4.5 million to the Capital Improvement Program to fund the capital costs to relocate the Sheriff's Aviation Division from the Rialto Airport to San Bernardino International Airport.

(8) $8.5 million allocated to mandatory contingencies (1.5% of locally funded appropriation).

(9) Recommended reserve contributions are $5.7 million to the general purpose reserve. The County Fiscal Plan also includes contributing $3.5 million annually to the Earned Leave Reserve until there is a sufficient balance for the County's earned leave program.

Table 6 summarizes the County's Fiscal Year 2013-14 fiscal plan for discretionary sources and uses:

TABLE 6
COUNTY OF SAN BERNARDINO
SUMMARY OF COUNTY'S FISCAL YEAR 2013-14 FISCAL PLAN
DISCRETIONARY SOURCES AND USES
(in millions)

	Ongoing	One-Time
Ongoing Carryover from Prior Years	$9.4	$ --
Change in Available Funding	17.8	129.2
less: Change in Ongoing Costs/One-Time Costs Funded with Discretionary Revenue	(27.2)	(58.0)
2013-14 Unallocated	$0.0	$71.2

The unallocated amounts in Table 6 above will be budgeted in the Contingency for Uncertainties. $57.8 million of the $71.2 million one-time contingency allocation is set-aside in the 2013-14 Recommended Budget for specific one-time projects and other one-time costs. These set-asides include $18.0 million for jail upgrades, $13.0 million for the new financial accounting system, $10.0 million for animal shelter capital needs, $5.9 million for Rimforest drainage improvements, $5.4 million for land use services general plan/development code amendments, $4.0 million for the County building acquisition and retrofit project, $1.3 million for prior years' Board approved set-asides, and $150,000 to update the County Code/Charter.